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THE CASE AGAINST PROTECTION

Summary of the Proceedings of the International Free Trade Congress

(ed E. C. Cooke)

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SUMMARISED BY

E. COZENS COOKE, B.Sc. (Econ.)

CASSELL AND COMPANY, LIMITED
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PREFATORY NOTE

THE aim of the following pages is to classify and summarise the evidence submitted at the recent International Free Trade Congress—with a view (1) to emphasising the completeness and extraordinary force of this many-sided indictment of Protectionist systems, and (2) to conveying a general impression, unburdened with details, of the results of the respective policies of Free Trade and Protection as actually practised in leading countries.

Those who are sufficiently interested to pursue the matter further are referred to the "Report of the Proceedings" of the Congress, which is the basis of the present informal précis.

E. C. C.

January, 1909.

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THE CASE AGAINST PROTECTION

I.—ECONOMIC.

United States.

1. First Principles.—No one will be bold enough to deny that Protection seriously interrupts the natural course of trade and aggravates the fluctuations and periodic crises which afflict the economic life of all modern communities. A protective policy develops and accentuates two tendencies—the tendency to over-production caused by excessive profits, and the tendency to under-consumption caused by excessive prices, which are always operating to create divergence between supply and demand; and the inevitable crash is precipitated sooner and more violently than if this disturbing factor were absent.

Against this admitted weakness of a protectionist system its supporters ask us to set two redeeming features—two special justifications: (1) the encouragement it affords to "infant industries," (2) the diversity of employment and harmony of development which it renders possible.

The broad lines of retort to this double plea present no difficulty. A protective tariff may bring into existence certain favoured industries, but it does so at the expense of others, which hitherto have been self-support-

ing, by calling on the workers to pay protected prices for selected products. In this way a new element of cost is added to the other industries and a part of their natural advantage is sacrificed. The loss may seem insignificant, but sooner or later it is put forward as an argument for new applications of Protection in ever-increasing doses, until, presently, every industry is seeking aid against its fellows. When the circle is completed, and the virtues of the system are exhausted, the protected interests consume and rend each other. That stage has now been reached in the United States, and drastic revision of the system is announced. Whether reform can stop short of abolition is a matter for keen dispute, but surely one day, in the face of some great social upheaval, the world will awake to truer perceptions and will return to commonsense views on trade.

Meanwhile, with the United States as object lesson, we can perceive clearly several results of a fully-developed protective system. Firstly, other things such as ingenuity and enterprise being equal, the general level of prices in the protected country will be far higher than in countries possessing a low revenue tariff; secondly, many lines of production are made difficult, or even impossible, which, under free conditions, would flourish; thirdly, politics degenerate into a succession of intrigues to win advantages by legislation at the expense of the community.

2. A Page of Tariff History.—Inter-State Free Trade was established in 1789. That fact, too often overlooked, has had an enormous influence on the

development of the country. "Such superior prosperity as we may truly claim," says Mr. Louis Post, "is due, not to the Protection which segregates our Republic, but rather to the Free Trade which unifies our States."

The Federal Constitution empowered Congress to raise national revenues by levying duties on imports, incidentally securing, as Hamilton argued, protection of "infant industries." The iron industry was considered powerful enough in 1790 to be removed out of that category, and pig iron did not secure a place on the favoured list!

In 1816 a policy of Protection, *per se,* was adopted. Domestic manufacturers had flourished mightily during the "embargo" period, and did not appreciate a resumption of free competition. They secured a strengthening of the tariff up to 1828; then a demand for modification became manifest, followed by a reaction, culminating in the protective tariff of 1842. The movement proved to be lacking in popular vitality, and a new era was ushered in by Walker's Treasury Report of 1845, advocating a complete reversal of policy. The tariff of 1846 was a tariff for revenue only. "So general was the acquiescence that in 1856 a protective tariff was not even suggested or even hinted at by any one of the three parties." On the contrary, further reductions were made in 1857, and the principle of a revenue tariff was so firmly established that, but for the fiscal necessities created by the war, it is possible that it would have remained unshaken to the present day.

The war duties were not protective. An increase

of customs was necessary to balance the new excise, but at the close of the war the excise was removed, and the customs remained. There, in a word, is the genesis of the present "monstrous schedules." Protection was re-established not under the palliating plea of national necessity, but at the bidding of private individuals, who greedily seized the opportunity of enriching themselves at the public expense. With scarcely an ebb, the tide of Protection has risen higher and higher, until, under the Dingley Act, the average *ad valorem* duty is 45 per cent. or 50 per cent., while the actual rate on very many commodities is prohibitive of importation.

3. Protection and National Development.—An inquiry by Mr. A. B. Farquhar into the relation between tariffs and exports in the United States carried up to 1890 led him to the conclusion that there had been "no decided or lasting changes in trade balance accompanying tariff increases or decreases," though, generally speaking, per capita exports had varied inversely with rates of duty. The extraordinary growth of iron production complicates the problem in recent years, but, again, it is shown that exports received a stimulus under the moderate Wilson Tariff of 1894. How little there is to boast of in the present position of American exports under high Protection is shown by comparison with British figures. Taking the year 1907, exports of domestic produce per head of the population amounted to £4 12s. for the United States; to £9 13s. for Great Britain.

The outstanding features of American production

are monopolist exploitation of natural resources and the artificial enhancement of prices under shelter of the tariff. American profits are largely made by drawing too freely on national capital or, rather, by the reckless appropriation by individuals or corporations of the common stores of natural wealth—land, minerals, timber, and the like. Manufacturers, especially of the more elaborated products, are handicapped by the dearness of raw materials, by the expensiveness of living, and by the retaliatory tariffs of foreign countries—which shut out goods from many markets. Thus, the tariff on copper has enormously enriched a ring of mine owners by enabling them to exact the European market price plus duty; but it has discouraged the manufacture of copper ware for home use and abolished it for export. The United States exported to Great Britain 130 million pounds' worth of goods in 1906; but "manufactures" were valued at only 15 million pounds, and many of these, such as paper and leather, are the raw materials of British industry. The United States exports are even less satisfactory on analysis than they appear at first sight.

Statistics of American wealth production are thoroughly misleading. Wealth creations are confused with mere appropriations; earned with unearned increments. Improvement values—the measure of work done—are not disentangled from site values—the measure of the burden placed on the opportunity to work. There are, therefore, very large deductions to be made from the statistical estimates in order to distinguish between "created" and "transferred" values.

The inclusion of public domain in valuations of private property, duplications of credit, and discontinuity of method are other defects which seriously impair the value of American national statistics.

4. A Disappointed Proletariat.—The United States' Protectionists, conscious that their programme could not be successfully carried out without the assent of the people, carefully fed the flame of socialistic revolt against competition. While Free Traders stood aloof in academic indifference to the sufferings of the working man, Protectionists drew pleasant pictures of a "full dinner pail" and charmed him with "musical statistics" of the good times which would follow a successful crusade against the "foreign devil." How far has this prediction been fulfilled? How far has the policy which the American working man has supported with his vote for forty years shielded him from the horrors of competition?

"Railroad wages—to instance a highly organised occupation—show increases varying from 2½ cents to 12 cents per day. The average increase of wages between 1892 and 1906—years which represent low and high water marks respectively—has been set as high as 15 per cent. or 20 per cent. But, meanwhile, what of prices? According to a report on wholesale prices prepared by the Bureau of Labour, based on 258 staple commodities, there has been a rise of 45 per cent. in the ten years ending 1907. Dun's Index Number, carried to May, 1907, shows an increase of 51 per cent. in ten years!

But wages are as unstable as they are inadequate.

The census of 1900—a year of alleged prosperity for the working classes—gives these figures of factory employment: max., 7,069,000; min., 4,524,000; aver., 5,308,000. The mean percentage of unemployed factory labour was, therefore, 25 per cent. The facts concerning female and child labour speak even more eloquently of the pitiful condition of the male worker and of the degradation of his home, giving an emphatic denial to the impudent claim that Protection is a policy for the protection of the worker. Recurrent periods of hard times have, with one exception, coincided with aggravated tariffs. "Protection has never prevented hard times nor ever restored good times."

5. The Stirrings of Revolt.—The country is beginning to kick against the insolent domination of its masters. The National Association of Manufacturers is recommending the overhauling of the Dingley Tariff with a view to a reduction of duties, and is unanimously in favour of liberal reciprocity treaties. The manufacturers are anxious to try the policy of larger sales and smaller gains per sale; they are realising the folly of working by antipathies rather than by sympathies; in a word, they wish to make terms with their rivals instead of continuing to fight them. As reciprocity, unlike subsidies and bounties, identifies the interests of producer and consumer and advances the cause of international amity, it is hoped that the movement will prosper and constitute a long step towards universal Free Trade.

The workers, in their blind resistance to the present *régime*, hardly know whither they are trending. They

imagine Socialism is their goal, but would repudiate the notion that they are substituting one tyranny for another. They still regard competition to be the author of their ills; they see that Protection has not rid them of the curse; and now they seek to abolish competition altogether.

Meanwhile a new spirit is being breathed into the old American Free Trade League, and its leaders are earnestly proclaiming that the emancipation of labour can only be achieved under a system of unconditional, absolute Free Trade, guaranteeing equal opportunities of production and equitable shares in distribution. When they go on to insist that the initial step is the socialisation of all monopolies which stand in the way of individual effort—the public acquirement of public utilities—they come into line with the growing sentiment among the workng classes and gain their confidence. Outside the "Socialism of arbitrary rules and despotic regulations" there is a truer form: the Socialism of natural social law, which recognises the correlative functions of the social whole and the individual unit, and assigns to individual effort its appropriate place in the life of the community. If Free Traders accept this higher and more human theory of Socialism, American working men will rally to their side. But there is, indeed, very much more to be done in the way of practical effort than the overhauling of customs tariffs.

GERMANY.

1. Agriculture.—The diminishing surplus of German corn, consequent on the need of increasing food

supplies for a rapidly growing population, coincided with a considerable fall in the world price. To safeguard their interests the great landlords, co-operating with the "industrials," demanded a protective duty on corn, which was embodied in the tariff of 1879 and has never since been withdrawn. The results of the new policy can only be barely enumerated.

(*a*) The duty on wheat has advanced step by step from 1 mark to 5.50 marks per 100 kilos., notwithstanding Bismarck's confident prediction that "even the wildest agrarian would never dream of a duty of 3 marks on corn."

(*b*) Nevertheless, the import surplus has increased by 1.65 million tons between 1889 and 1907.

(*c*) In years of bad harvest or artificial scarcity the duty finds almost full expression in the price.

(*d*) The agrarian duties operate exclusively to the benefit of large estates. The small farmer is handicapped by the dearness of grain and other food-stuffs. Thus, through the unequal pressure of the duties, the equilibrium between large and small farming is destroyed.

(*e*) High prices have fostered an unhealthy extension of corn growing. Inferior land is brought under the plough, and cultivation becomes profitable only on the basis of unsound prices. Much land devoted to corn and yielding diminishing returns would show better results if other branches of farming were introduced and intensive methods adopted.

(*f*) It follows, from the disproportionate area given over to large farming, that the demand for labour has

lessened and that the rural population has diminished, except in those areas where small properties predominate. The tide of emigration mounted swiftly in the years following the inauguration of protective duties.

(*g*) Owing to the high costs of production, there is a great demand for cheap foreign labour from Poland and Galicia, which depresses the wages of home labour.

(*h*) The duties have "doubled and even trebled" the prices of agricultural estates. The monopolist landlord is the final beneficiary under the tariff. The shares of the tenant farmer, the peasant, and the consumer are insignificant or *nil*.

2. Manufactures.—We shall content ourselves with a test case. It is customary in Germany to ascribe the great development of the iron industry to the protective duties, ignoring a scientific fact of vast importance. German iron ores contain a high percentage of phosphorus, and their conversion into tempered steel has only become possible since the invention of the basic Bessemer process, for which the natural conditions in Germany are especially favourable. Here is indicated the true cause of the expansion of the German iron industry. For a time, competition maintained prices at their natural level; but, with the advent of Kartells, the influence of protective customs duties began to be felt. The position of the great iron and steel syndicates is supreme: they obtain their raw materials at lowest prices, and, as colliery proprietors, are independent in respect of coal supply.

Outside these giant concerns, but entirely in their power, are the small rolling mills, paying Kartell prices

for pig iron and coal. Only when times are very brisk can they recoup themselves for their heavy outlay. In slack times the syndicates keep up the price of the raw material and cut the price of the finished article. Sad experience has taught the small manufacturer and handicraftsman that Free Trade, by giving them cheap food and enabling them to buy their raw material in the open market, alone can prevent them from going under.

The Kartell policy reacts seriously on home industry. Semi-manufactured goods are exported at especially low rates to England or Belgium, where the manufacturing process is carried on a further stage, and eventually the fully elaborated product is able to undersell similar German goods in the international and even in the German market. For the same reason German shipbuilding yards and locomotive factories complain that they cannot bring their estimates down to English or Dutch quotations. Yet Germany is the foremost country in the world in the matter of scientific training.

3. The Standard of Living.—There has been an undoubted improvement in wages accompanying the industrial development of the last thirty years; but this fact conveys little information without reference to qualifying circumstances. It is observed that German average time wages at the present time are 25 per cent. below the English standard, and that the German worker's food would cost him 7½ per cent. less in England, notwithstanding that potatoes and milk—two staple articles of his diet—are cheaper in Germany. Again, though high prices have compelled employers

from time to time to concede an advance in wages, the increase has not been sufficient to cover the additional cost of living whenever there has been an increase in the agrarian duties. According to the most careful official calculations, real wages—or purchasing power—have improved 10 per cent. in Germany in the last twenty years, as compared with an advance of 18 per cent. in Free Trade England.

It is instructive to note that the consumption of food—the raw material of the worker—has scarcely risen in the last fifteen years; that of rye has actually fallen, that of wheat has fluctuated up and down; while, during the same period, the consumption of the raw materials of industry has risen—in some cases two and three fold. At the same time, high prices have restricted the sale of the manufactured products at home, and driven them to find a market in foreign countries. Clearly, the worker has not obtained his due share in the increased national productivity: he has received a higher wage, only to be absorbed in dearer food. The consumption of sugar, to take a glaring example, is still only 36 lbs. per head, as compared with 81 lbs. in England. But while the German worker's budget is meagre, judged by English standards, compulsory insurance against old age, sickness, and accident alleviate the daily strain and encourage thrift. It is possible that, in spite of dear living, the German worker leads a more humane existence than his British brother; but, if so, the tariff cannot take any credit for the fact.

There is a close relation between dear living and mortality rates. The deficiency of albumen in the

German diet, the substitution of potatoes for meat, the shortage and impoverishment of milk in many districts —which is clearly attributable to German fiscal policy— reveal their consequences in high infant mortality. The percentage of infants who died within a year of birth in 1905 was 20.5; the corresponding figures for Holland, Denmark, Switzerland, Sweden, Norway, and England and Wales were 13.1, 11.2, 12.9, 9.3, 7.6, 12.8 respectively.

The general mortality figure—20.8 per thousand—must be considered very high. It is worthy of remark that the European death rate is highest in those countries where, owing to a protective policy, food is dear, and lowest in those which admit food-stuffs free or subject only to very moderate duties. This fact is eloquently set forth by the following figures :—

Russia, 32.1.	Belgium, 16.9.
Hungary, 27.8.	Scotland, 15.9.
Spain, 25.8.	Sweden, 15.6.
Austria, 23.7.	Holland, 15.3.
Italy, 20.9.	England and Wales, 15.2.
Germany, 20.8.	Denmark, 14.8.
France, 19.6.	Norway, 14.7.

4. Broad Results.—A protective policy invariably denotes "protection of the strong and injury of the weak." With every increase in agricultural duties estates change hands at enhanced prices, and the luckless farmer's profit is swallowed up in increased rent. The great capitalists abuse the power with which the tariff invests them by levying toll upon the small manufacturers, and, when opportunity offers, they buy or

crush them out. The retail merchant has ceased to exist as such: he is a mere agent, buying and selling under conditions determined by the Kartells; while, in face of these powerful organisations, the position of the trade unions, which alone protect the workers from serfdom, is becoming very precarious. The pressure of high costs of production leads to increasing concentration of business, and maintenance of prices to the detriment of the general purchasing power of the community.

So artificial is the character imparted to industry by a protective tariff that the favoured branches are induced, by means of indirect subsidies, to extend their operations beyond the point of maximum advantage, whilst other profitable occupations are suffered to decay. In Germany, as we have seen, the agrarian duties unduly favour the growth of corn, whilst stock and poultry breeding, dairy farming, the cultivation of fodder and roots are comparatively neglected.

Potato-spirit distilling, seaboard blast furnaces, and fine textiles, for which climatic conditions are unsuitable, are products of artificial State aid. But for the duties under stimulus of which these industries are carried on, much of the capital employed in them would, in obedience to the natural law of division of labour, drift into more profitable channels, and so, acting more efficiently, would lead to a great expansion of the national dividend. If for no other reason than that it entices productive energy into relatively unfruitful enterprises, Protection stands condemned.

5. The Prospects of the Free Trade Move-

ment.—It is to this "want of comprehension of the economic situation" that Dr. Gothein attributes the strength of Protectionist opinion in Germany, and he cites the Society for Commercial Relations as the only organisation fighting the Free Trade battle with a clear conception of its purpose, while even its programme is confined to certain practical demands of limited scope which do not appeal very strongly to the mass of the electorate. He describes the outlook in these words :—

"An important crisis—marked by the unfavourable development of the financial situation and the necessity for exporting on a larger scale—is forcing Germany to modify her protective commercial policy. Notwithstanding the apparently enormous rise in the export trade of Germany, it has, in proportion, lagged behind the increase of her population. Her balance of cash and, with it, her bank discount rate and the rate of interest on loans are getting more and more unfavourable, and further increase the cost of production, already too much weighted by the duties on necessaries. A country that, owing to the very rapid increase of population, is so much dependent upon the development of its industries cannot, for any length of time, hamper that development by customs duties without inflicting serious damage on the vital powers of its people. . . . The necessity of the times will compel us to throw protective duties overboard."

France.

1. "Liberty of the Tariff."—The first point established by M. Schelle is the instability of French

customs legislation. A permanent commission advises the Chamber of Deputies on tariff matters. In practice, it sits to grant favours to those who solicit them, and, usually, the first comer is best served. Industrial markets are a prey to all the evils of uncertainty—nervous apprehension, continual fluctuations, speculative dealings. This instability of the tariff in countries where clamorous interests insist on its readjustment with every variation in economic pressure is a quite intelligible phenomenon. It is indeed inevitable: Protection is the "ceaseless feeding of an insatiable mill."

Throughout the long Liberal *régime* inaugurated by the Cobden Treaty of 1860 the duty on wheat was 1 franc per quintal. With the return to Protection it was raised to 3 francs, and over a term of thirteen years was altered seven times. More than once it stood as high as 7 francs, and during the crisis of 1898 was suspended altogether. Several attempts have been made to increase the duty beyond 7 francs.

After the tariff of 1881 new treaties were entered into with various countries. On their expiry in 1892 a radical change was effected by the institution of the general and minimum (or treaty) tariffs, thus securing, in the facetious language of the promoters, the "liberty of the tariff." The general level of the 1892 duties represented an increase of 80 per cent. on the tariff of 1881. The schedules have since undergone innumerable modifications. M. Guyot gives the actual number as 348; and, thanks to the exceptional powers of the Executive, revision may take place at any

moment that the commission thinks fit. At the present time there is a feeling that the general tariff rates are too low for effective bargaining purposes.

2. Tariff Wars and Trade Movements.—The sequel to the re-establishment of Protection in France was retaliation by her neighbours. France was engaged in tariff wars with Switzerland in 1892-5 and with Italy in 1888-9. Commerce with the former fell from 328 million to 230 million francs ; with the latter from 500 million to 281 million francs. The recovery of the lost ground has been a slow and difficult process. The French market is still closed to Italian and Spanish wines which, in consequence, now compete with French wines in neutral markets.

In addition to formal campaigns there has been harassing guerilla warfare. The French Government has the power to levy surtaxes, provisionally, by way of reprisal for unfavourable treatment, and has used it freely. As duties are usually raised preparatory to effective negotiation, the concessions which are ultimately granted are often illusory.

Both the tariff of 1881 and that of 1892 have been followed by a decline in French commerce, general and special. Over the period of 1880-1895 the former showed a decline in values of over 10 per cent.; the latter fell off by 14 per cent. There was a fall of 26 per cent. or 27 per cent. in the interval in the Index Number of general prices in *both* countries, but despite this fact, the value of English commerce showed a substantial increase. M. Picard, in his last report on French customs, admits that the protective

régime in France and other countries has hindered the expansion of French commerce.

3. Consumers' Toll.—It is not necessary to labour the point that duties act as a lever for raising prices. French Protectionists freely admit the fact. The margin between London and Paris wheat prices varies widely, but it is always against the French consumer. Similar remarks hold good with regard to meat, sugar and other requisites. Roughly speaking, the protection afforded to the home producer varies with the amount he has to sell. M. Zolla, a competent agricultural statistician, has estimated the average yearly toll paid by consumers to producers on that part of the home production which is placed on the market at over 300 million francs. (The revenue paid into Exchequer on imports is, of course, additional to this sum.) It is not difficult to see that the burden falls most severely on the poorest households with the largest number of mouths to feed; and that the small cultivators, by far the larger class, who consume their produce directly do not share in the booty. As always, the great landowners reap the final advantage, since poorer soils come into cultivation, and rents are thereby maintained or raised.

The significance of the rise in the cost of the necessaries of life is partly concealed from public view in the depreciation of prices which has coincided with the strengthening of the protectionist *régime*.

4. Diminished Employment of Capital and Labour.—An official calculation made in 1901 showed that the tariff bounty enjoyed by the great ironworks

added 33 per cent. to the cost of locomotives and electric dynamos, and from 4 per cent. to 12 per cent. to that of various kinds of industrial machinery, thus indicating the extent to which taxation of raw materials hampers manufacturing industries. This prejudice reacts, in its turn, on the more elaborate processes of industry, on shipping, transport and many other employments which are dependent on the volume of trade.

It will thus be seen that, in striking the balance between the gains and losses of a protectionist system, there are many drawbacks to set against the stimulus to protected industries. The instability of the fiscal system increases the risks of business enterprise and acts as a deterrent to capitalists. As an instance of the perversity of tariff influences M. Schelle cites the many trade establishments in the north of France which have crossed the frontier in order to escape the vexatious customs imposts. The tariff sometimes not only fails to protect home industry, but actually exposes it to keener competition.

The labourer fares little better as a wage-earner than he does as a consumer. It is true that Protection may have deferred the ruin of many unsound concerns, hiding their inefficiency beneath the tariff wall, but, even in the case of the most highly protected industries, the state of employment is often far from satisfactory. For instance, the number of workpeople employed in French sugar factories diminished by 25 per cent. between 1881 and 1901. The explanation is to be found in the fact that extravagant prices kept home consumption at a very low level.

But the non-protected industries which are tributary to the favoured ones are still more severely handicapped by high costs which restrict production and lessen the demand for labour. M. Guyot estimates that, out of an industrial population of seven millions, only 300,000, or 4 per cent., are associated with protected industries ; that 8 per cent. of the agricultural workers and 5 per cent. of the entire population of France represent the total number of persons who can derive any benefit from the tariff !

After this, it needs all the arts of casuistry to give plausibility to the pretence of adopting protective tariffs in the general interests of either capital or labour.

5. Commercial Treaties.— M. Yves Guyot argues eloquently on behalf of commercial treaties. After a rapid historical sketch he draws a contrast between the comparative security and peace of the treaty epoch which opened in 1860 and the fevers and uncertainties, the alarms and excursions, of the period which succeeded it. Recalling the incessant tinkering with the French tariff of 1892, he pleads that commercial interests, subjected as they are to all sorts of unavoidable hazards, might well be spared the additional risk to which protectionist whims and the erratic course of tariffs exposes them.

M. Guyot makes the reservation that commercial treaties must be framed in a truly liberal spirit, with an intelligent understanding of the mutual benefits which a lowering of tariffs confers. Advocates of reciprocity are too often imbued with the false notion that the most skilful negotiator is he who secures the

largest reductions from the rival nation and makes the least sacrifice in return. The objects of commercial treaties are defeated by the artifice of strengthening the tariff previous to opening negotiations, and by the resort to expedients, such as export bounties, which, while not infringing the letter of a treaty, are contrary to its spirit.

An appeal to the two countries follows. He addresses Great Britain in these terms: The Free Trade position is no longer proof against assault. It is not improbable that the Tariff Reformers, though powerless to carry their original programme involving food taxes, will, in view of the new burdens thrown upon the Budget, convert the country to the desirability of new duties on manufactured goods, on the specious pleas that they "will be paid for by the foreigner and will protect the national labour." All considerations, therefore, must be subordinated to the necessity of maintaining unimpaired for a term of years the present customs tariffs.

To his own countrymen he says: The Protectionist party is strongly entrenched. If you, the great majority who bear the burden of Protection and yet are too apathetic to throw off the yoke entirely—if you are to resist further encroachment on your liberties, you must have a rallying point, "precise and tangible"; you must put before your Parliament a "firm but limited" proposition.

M. Guyot's definite proposal is for an immediate convention providing on the French side for the suppression of the *surtaxe d'entrepôt;* on the English side,

for the reduction of the duty on French wines by 50 per cent.

Politically, he considers that the successful maintenance of the "entente cordiale," as well as the credit of the present British Free Trade Ministry—whose lofty pretensions do not sanction a purely passive attitude in this matter—essentially demand some such commercial *rapprochement* between the two nations.

Professor Arndt is not so enthusiastic on the subject of commercial treaties ; and there is force in his contention that they often obstruct intercourse with countries outside their scope, and that they may foster a jealous and exclusive spirit. He gives point to his criticism by asking if England has always stood for liberty and equality in the world market ; whether, for instance, in working to obtain special trade advantages, she has not viewed with displeasure the colonising efforts and commercial enterprise of other nations. An ambiguity of this nature must discredit Free Trade and impede the success of its propaganda.

Extremists among Free Traders ban commercial treaties altogether—along with tariffs and all restrictions on trade. But while, to quote Dr. Barth, "Free Trade is better than a formal treaty of alliance ; it is a material alliance in itself," commercial treaties have, at least, this in their favour : that they diminish the uncertainties and resulting losses to which international trade is exposed by changing tariffs.

ITALY.

1. Tariff Reform in Italy.—In 1887 the Italian manufacturers, in league with the agrarian party, and

professedly in the interests of agriculture, secured a decisive "reform" of the moderate tariff with which the liberal policy of Cavour had endowed the country. The Protectionists chose their time well. The serious fall in the price of wheat drew the large landed proprietors to their side; whilst an extravagant financial and military policy lent a reasonable colour to their schemes. The duty on wheat was first increased from 1 lire 40 cents to 3 lire per 100 kilos, and has been carried by subsequent increases up to 7.50 lire. The average increase between 1886 and 1896 in the duty collected on principal imported manufactures was 62 per cent.

The immediate consequence, as above related, was the rupture of trade relations with France, and a general disturbance of Italian external trade which fell off 11 per cent. in the years 1888-91. The revival in 1892-8 synchronised with the Caprivi treaties. A fresh *entente* with France, high prices and improved administration account for the progress since 1898. Protection was directly responsible for the trade depression of 1888-91, but can scarcely claim equal share in its revival. The opinion is widespread that "the tariff has created industrial Italy"; but there is no presumption in its favour.

2. Italian Industries and Protection.—*Raw Silk* (reeled and thrown) represents one-third of the total value of Italian exports; but it had no place in the protectionist tariff of 1887, and was seriously injured by the restriction of its markets. Yet the trade has shown powers of increase "superior to that of any other privileged industry." The one-sixth of

the national production which is absorbed in the home weaving trade is protected by heavy duties on piece goods. The monopoly of the home market is, however, of little consequence to a trade depending on export.

Cotton is one of the privileged industries, though, having a permanent, natural foundation, it could easily dispense with tariff support. Seeing that Italian cotton manufacturers can levy a tax of 30 per cent. on the home consumer, it is not surprising that the domestic consumption of yarns and piece-goods has undergone no substantial change in the last twenty years. Meanwhile the Protectionists make capital out of the increasing exports. It is a remarkable, if not ignoble, feature of the "national system," as practised in most protectionist countries, that producers prefer to sell their goods to foreign countries at a loss rather than share any of their monopoly gains with their own countrymen. The yearly tax imposed on the Italian people for the benefit of the cotton industry is calculated at 100 million lire.

The *Sugar* industry shows the protective system to its least advantage. The exemption of Italy from the clause of the Brussels Sugar Convention limiting the surtax on imports enables the Italian Sugar Syndicate to maintain prices at a prohibitive figure, and so restrict consumption of a highly nutritious food. In addition, the development of sugar-using industries—which has reached such large proportions in Great Britain, a country less fortunate than Italy in the matter of raw materials—is seriously impeded.

The progress of the woollen industry has been dis-

appointing. Despite heavy duties, home production has not made good the deficiency in imports. Italy is poor in metallic resources, yet a highly protected iron industry increases both the burden of national defence and the cost of many industrial implements. The duties, however, are so graduated as to press with the minimum of severity on the powerful textile industries. The survey might be extended to other industries, with similar results.

3. The Beneficiaries of the Tariff.—It is necessary to classify the people of a country according to their occupations before realising the important fact that the number of persons who *can* be protected by a tariff is very limited, for the simple reason that the nature of the business in the majority of cases precludes foreign competition.

Of 25 million Italians above nine years of age, about 20 millions derive no benefit from industrial protection, and indirectly suffer considerable loss. The latter total is made up of 9½ million agriculturists, 2¾ millions engaged in the building and transport trades, the Services, retail trade, teaching and domestic service, 7 million female housekeepers and students, and ½ million professional and independent persons. Even of the 5 million nominally protected persons it is safe to say that, in the event of a remission of duties, many would suffer less from increased foreign competition than they do at present from costly raw materials. Lastly, under a bold Free Trade reform, many would drift, after temporary inconvenience, into more profitable industries.

4. The Agricultural Hoax.—If demur is made to the inclusion of agriculturists in the above list of non-protected industries there is a simple and sufficient answer, viz., that "agriculturists" as a class should not be confused with the great landed proprietors. Here are a few important facts to be borne in mind:

(*a*) Of 5 million proprietors, 3¼ million farm no more than one hectare of land, and hardly any are in a position to sell wheat on the market. On the contrary, most of these small proprietors, and also a majority of the 1 million whose estates are between one and four hectares, are buyers of wheat.

(*b*) In spite of Protection, Italy has to import wheat. The consequent enhancement of price of the total available supply restricts the consumption of wheaten bread to the well-to-do.

(*c*) If, as in 1907, the home crop is abundant, it is the small growers who are forced to unload at once, and so relieve the market for the benefit of large dealers and producers who can wait for the rise.

(*d*) In an average year the duty adds 300 million lire to the price of wheat actually sold for home consumption. The fiscal revenue of late years has averaged 75 million lire; the difference between the consumers' tax and fiscal receipts represents the private tribute levied by the great proprietors.

(*e*) Even they have reaped a mixed harvest, for the dearness of wheat has reacted unfavourably on other branches of agriculture, such as viticulture and cattle rearing.

Yet, despite these facts, the fiction is assiduously nursed that the prosperity of agriculture depends on the tariff ; and this deeply rooted prejudice—apart from the immense political influence of the protectionist manufacturers—is manifestly the chief obstacle to the progress of Free Trade ideas in Italy.

Belgium.

1. Scientific Tariffs.—The course of Belgian fiscal history is most instructive. After the dissolution of the Union with Holland in 1830 Belgium strengthened the protectionist element in her fiscal system with the intention of building up her national industries. The tariff was skilfully devised to secure an all-round development, and transit and shipping claimed special attention. The agricultural duties were in time relaxed, but the rates on manufactured products were continually increased, and by 1847 had reached an extraordinary height.

The figures of Belgian commerce during this period are not impressive. The average value for 1837-41 amounted to 343 million francs; for 1842-6 to 386 million francs. In face of such a negligible increase, the period can only be described as one of quasi-stagnation.

2. Towards Free Trade.—A reaction followed. The tariff was simplified in all directions. Differential and export duties were abolished as evil things. During the years 1848-53 foreign commerce expanded to an average value of 512 million francs.

In the 'sixties the wave of Liberalism spread to Belgium, and a vigorous Free Trade campaign was

prosecuted. The Anglo-French treaty served as a model for a series of treaties and commercial agreements arranged by Belgium with France and various other Powers. The concessions granted during the treaty period—1861-5—paved the way for the general low tariff of the years 1865-75. More and more, Belgium approximated to a purely revenue system of finance, with highly gratifying results. Consumers benefited by the free importation of necessaries, and increased food imports stimulated a parallel extension of Belgian manufactures which were exported in settlement of the international account. The augmentation of commerce in the ten years ending 1870 was nearly cent. per cent. over the previous decade.

3. Recent Developments.—A protectionist tendency reappeared in 1887, and was confirmed by the tariff of 1895. Still, the modern Belgian tariff cannot be described as restrictive in its tendency. The Minister of Finance is free to extend at will the category of "articles which serve industrial uses" and which pay only 5 per cent. duty. It is astonishing how elastic is the term "raw material" regarded from a liberal standpoint! Glancing at food categories, it is interesting to note the result of the reduction of the surtax on sugar. The average annual consumption in the years 1898-1902 was 26 million kilos.; during the period 1903-7 it rose to 77 million kilos.

The law of 1895, though "hybrid" in character, made some important reductions, one or two of which are worth remark. The duties on cotton thread were lowered 50 per cent. amid loud cries of impending ruin

from Belgian spinners. As a matter of fact, the industry has progressively developed with the successive lowering of duties, and, since 1895, exports have increased in greater ratio than imports.

Pig iron was similarly relieved to the extent of 60 per cent., and Belgian ironmasters uttered grave, if somewhat wild, predictions. Again, the statistics show no dire results from a courageous handling of the tariff, but the continued and increasing prosperity of the Belgian iron foundries in face of keener competition.

4. The Value of Free Imports.—The success of Belgian industry, in spite of various drawbacks, is attributable, notably, to two causes: (1) inexpensive living, (2) untaxed raw materials. Meat is almost the only article of diet which is not on the free list. For the rest, the free admission of textiles and raw skins guarantees cheap clothes and shoe leather.

In 1907, 87 per cent. (81 per cent. in value) of all Belgian imports entered the country free of duty. Belgium has, therefore, good reasons to thank the preponderating liberal influences in her tariff for the important place she holds in the commerce of the world.

Holland.

1. Approximate Free Trade.—The Dutch Free Trade movement followed a course parallel to, though somewhat later than, the corresponding movement in England. A series of reductions and repeals made way for the present "slightly protective" tariff, which, with small amendments, remains as enacted in 1862. Under

it raw materials and necessaries are imported free of duty, semi-manufactured goods, or "articles for industrial purposes," are subject to 2 per cent. or 3 per cent., and manufactured goods to 5 per cent. *ad val.* These measures were regarded as preliminary to the introduction of a purely revenue tariff, but the goal has not been reached, owing chiefly to the growing demands of the Exchequer.

There is not wanting in Holland a party which, under the guise of strengthening the State finances, would utilise the tariff "for the development of industry and for the advancement of national labour." Free Traders claim that the results of fifty years of approximate Free Trade justify beyond question a continuance of that policy. The foreign commerce of Holland has trebled since 1850.

2. Homely Lessons.—Agriculture has developed enormously. The surface under tillage has increased 15 per cent., and the production of all cereals has grown proportionately. Dairy farming and market gardening are especially flourishing. Butter, cheese, trees, shrubs, bulbs, fresh meat and vegetables all show increasing surplus exports. The Dutch farmer is too industrious and enterprising to find time to bewail the decline in the price of corn. He has bestirred himself, and has discovered new sources of profit. Proposals for tariff revision in Holland never include agricultural protection.

Industrial statistics are equally encouraging. Two illustrations will suffice. Since the abolition of differential duties in 1874 the value of cotton manufactures has

risen from 4½ to 11 million florins a year, the costs of production of a cotton yarn manufactory being some 8 per cent. less than in Germany. Again, Dutch shipbuilders buy their plate iron from Germany at a discount of 25 per cent. below the price quoted in the German market, and are enabled thereby to compete successfully with the German yards at Ruhrort. The gross tonnage of ships built in Dutch yards doubled between 1895 and 1900.

3. Welfare of the People.—The favourable reaction of economic development on general well-being in Holland may be tested in various ways. The fall in the prices of commodities in daily use has been accompanied by increased consuming power and by an improvement in the dietary of the people. In the course of the second half of last century the consumption of wheat per head rose from .43 to 1.29 hectolitres, while rye and barley remained almost stationary; potatoes, rice, sugar, and meat all figure much more largely in the daily *menu*. This growth in the consumption of staple foods represents an enormous levelling-up in the standard of living during the Free Trade era.

In the same period, despite the fall in prices, the average value of household effects has more than doubled, and the number of houses has increased 100 per cent. as compared with a growth of 61 per cent. in the population. The rental value showed an astonishing increase—from 27 to 129 million florins.

4. An Instructive Comparison.—A comparison of food prices in 1908 at Enschedé (Holland) and Gronau (Germany), five miles distant from each other,

shows an average excess of 30 per cent. in the latter town. The slightly higher wages, *e.g.* one-sixteenth for spinners, one-tenth for weavers, are poor compensation to the German worker. Dutch labourers employed during the day at Gronau return in the evening to Enschedé, and German manufacturers build houses across the frontier that their workmen may obtain the advantage of the cheaper living.

Protectionists are fond of insinuating that cheap food is not an unmixed blessing in countries where the workman is robbed of his rightful employment by the invasion of foreign goods. They may note that in Holland during the last twenty years wages have risen considerably, so that the workers have gained in every way. In textiles the improvement ranges from 30 per cent. to 50 per cent., while working hours are less by 8½ per week. A schedule of wages in Utrecht shows increases varying from 15 to 60 per cent., while Rotterdam dockers' wages have doubled, in forty years.

We are persuaded that Free Traders in Holland can give a very good account of themselves, and that the onus of proof lies with the party of "reform" and with those who advocate a change of system.

Denmark.

1. Happy Agriculture!—Denmark is a little country of 2½ million inhabitants which has raised itself from a condition of comparative poverty by systematic development of its agricultural industries. Since 1885 its foreign commerce has grown from 411 to 1,286 mil-

lion kroner. Despite allegations to the contrary, prices have not declined in the last twenty years, as the following figures show: butter exports have risen from 17,500 tons to 79,800 tons, and in value from 30 million kroner to 156 million kroner. Denmark, by the way, accounts for nearly one-half of British imports of butter. The prices realised for bacon and eggs show even better results. The stock of domestic animals—horses, cattle, pigs, and poultry—has enormously increased; the area under cultivation has steadily risen from 3,870,000 acres in 1875-8 to 4,635,000 acres in 1902-6; the production of cereals has increased in similar ratio, and that of root crops has multiplied tenfold.

Thus, while agriculture in other countries has been going from bad to worse and crying out continually for more and more protection, Danish farmers, without tariff assistance, have succeeded in improving and extending every branch of rural industry. Their secret should be worth the knowing when so many have failed to find a fortune in the land.

2. The Road to Success.— Nothing has been left to chance by Danish agriculturists, and the factors of success may be tabulated one by one.

Firstly, the distribution of land has played a very important part. There has been a gradual conversion from leasehold to freehold property, a diminution in the size of separate holdings, and a consequent increase in the number of small proprietors who are directly interested in the results of their labours. The greater part of the land is divided into small properties

averaging 100 acres each, cultivated for the most part by intensive methods.

Secondly, co-operative credit associations, which date back as far as 1851, have placed loan capital on easy terms at the disposal of all responsible persons. Collective responsibility of the loan takers is the leading principle of these institutions, and their soundness is testified by the fact that the shares are considered among the safest investments on the Stock Exchange.

Co-operation is the keynote of Danish agricultural prosperity. In the co-operative profit-sharing dairies competent management, scrupulous cleanliness, and rigid economy go hand in hand. A system of "control unions" provides for expert supervision of the cows. The collection and distribution of eggs are also rationally conducted on co-operative lines. Fifty hens will yield an annual profit of £5 10s. : a small item, perhaps, but in the aggregation of small profits the Danish farmer has found a comfortable living.

The popular country high schools, of which there were 85 with 8,000 pupils in 1906, afford practical and theoretical instruction in all branches of agricultural work at extremely moderate cost. It is principally through the training received in these schools that the rural population has reached so high a standard of efficiency.

The Free Trade convictions of the Danish peasant are supported by twenty years' experience of the policy of the "open door." He is clear-headed, resourceful, and alert. He has learned "to depend upon himself, to keep his eye open to necessary improvements, to

economise in every possible way, and to regulate his affairs so that both ends meet in spite of low prices."

The chosen representatives for Danish agriculture have, time after time, voted for Free Trade with an overwhelming majority. But the Jutland farmers are not only self-reliant, they are also magnanimous. A Free Trade resolution, signed by 30,000 farmers a few years ago, read as follows: "We Danish peasants do not want a duty upon grain or fodder, nor do we wish by artificial means to make food dear for our own countrymen." The declaration is refreshing!

3. Protection in Denmark.—But while the agriculturist is left to fend for himself, the customs officials interfere on behalf of the Danish manufacturer. The change of temper wrought thereby has shown itself in the violent discussions over the details of the new Danish tariff. Every time the shoe pinches, the manufacturer agitates for increased protection. If the duty does not bring the price of the foreign article up to his price, he argues that the foreigner has too easy access to the Danish market, and that the duty must be raised to a point which will secure him the inland sales. It will be observed that the interests of the consumer have no place whatever in this reasoning. With a system of protective tariffs in operation, a simple method of solving business difficulties presents itself, and each protected manufacturer is concerned solely with securing for himself the largest possible share of tariff gains. He *must* score off the foreigner, and, incidentally, does so at the general expense. He appears to be quite unconscious of the meanness of his action.

There is not only an unjust distribution of wealth under the protective system; there is also a positive waste of wealth. The consumer is taxed to increase the producer's profit; whereas, if the producer looked to fresh economies and improvements in his business, instead of to the raising of the tariff barrier, for his extra profit, the sum of national wealth would be increased and the general public would reap the advantage of the greater efficiency of the home production. There is an initial tendency for home competition to reduce prices, but producers soon perceive that they have a mutual interest in keeping them up to the duty level. When the home market is sufficiently protected from foreign competition, the syndication of home manufacturers follows in due course.

In Denmark the two policies of Free Trade and Protection are seen in operation side by side—the one applied to agriculture, the other to manufactures. Turning to the statistics of Danish commerce, we find splendid vindication of the Free Trade policy in the fact that farm produce contributes 98 per cent. of the total exports. Or, again, the United States, Germany, and France—to mention the foremost Protectionist countries—have engaged in many tariff wars and driven innumerable tariff bargains in their efforts to out-rival one another; but the value per head of the domestic exports of the United States is less than one-half, and of France and Germany rather more than one-half, that of Denmark.

4. Wages.—As Danish wages approach the English standard, and as many branches of Danish

industry are protected, the facile inference may be drawn that fiscal policy is not an important factor in the determination of the rate of wages. But the essential point of similarity between the two countries is the practical immunity from taxation of the prime necessities of life. The share obtained by labour in the distribution of national income depends largely on its bargaining strength—that is, on the effectiveness of the trade union organisations; and this, in its turn, depends on the measure of regular pecuniary support received from members. The connection between untaxed necessaries and the rate of wages is therefore clear. Thanks to cheap food, the Danish and English working classes can afford to contribute generously to their union funds, and thus, through their representatives, can secure an attentive hearing for their grievances and enforce their reasonable demands. On the contrary, where wages are swallowed up in dear living, and the resources of the unions are unable to meet the strain of prolonged strikes, employers will successfully resist the claims of their workpeople for higher wages and improved conditions.

5. A Half-hearted Measure.—The majority of Danish electors have always voted in favour of Free Trade, but political controversies and revenue considerations have prevented any material modification of the tariff of 1863 until the revision recently carried. The new tariff, indeed, does not come up to Liberal expectations, and the Government is accused of having failed to redeem the pledges given in opposition.

Agricultural products remain free; petroleum, coal,

raw and semi-manufactured metals are now placed on the free list; and there are lower duties on chemicals, dye-stuffs, timber, agricultural and general machinery, and various other products. But the demand for the reduction of duties on industrial products to a nominal 5 per cent. has not been met, the headings of the tariff have been actually increased, and *ad valorem* duties have not been introduced.

Free Traders regard the revision as a step in the right direction, but the reform is less pronounced than the proposals even of former Conservative Governments. The recent financial crisis is held responsible for the timidity with which the Liberals have attacked their task. The temporary depression provided the Protectionists with a timely illustration which they turned to political advantage; public opinion grew nervous; and the Government were compelled to relinquish some of the principal Free Trade claims.

Victoria—New South Wales.

1. A Fair Start.—These two neighbouring States of the Australian Commonwealth offer a unique opportunity for estimating the separate influence of fiscal policy on economic development. They are on the same industrial plane; they possess a homogeneous population; their institutions and laws are, for the most part, similar. Hence, as Mr. Max Hirsch points out, "the tendencies arising from opposing fiscal policies may be traced with greater clearness and certainty than in the case of countries in which permanent political separation has produced many and fundamental differ-

ences of historical growth, or which are in different stages of industrial development."

There are qualifying circumstances, but these, almost without exception, are in favour of the Protectionist State. We will enumerate the most important. (1) There is the richness and extent of the alluvial gold fields, which gave Victoria a very superior lead in the middle of last century, carrying her far ahead of the older State in point of population and wealth. (2) A greater proportionate extent of seaboard gives to Victoria the advantage of lower transport costs. (3) The soil of Victoria is more uniformly fertile, the rainfall more copious, and the climate more bracing than in the sister State. (4) Until recent years the land laws of Victoria were the more favourable to agricultural settlement. (5) The effective area of the two States is practically the same, but two-thirds of the vast territory of New South Wales, through infertility and sparse population, is a drain upon rather than an addition to the resources of the country.

2. The Parting of the Ways.—Other things being equal, then, we should expect to find a greater development in the more favoured State of Victoria. If such has not been the case—if she has lost her initial lead, and fallen back in the race—we may fairly hold that her fiscal policy has retarded her development; and, conversely, that New South Wales, in following a Free Trade policy, has adopted a wiser course.

Victoria first adopted Protection in 1864 with a 10 per cent. tariff, gradually increasing it till a maximum averaging 30 per cent. was reached in 1893.

New South Wales has faithfully adhered to Free Trade, with a brief interlude in 1891, when some 10 per cent. duties were imposed—only to be discarded in 1894. The contrasted results of the two policies up to the year 1901, when the States were merged in the new Commonwealth, are vividly set forth by Mr. Hirsch in a series of statistical tables.

3. The Position Reversed.—(*a*) *Population.* In 1871 there was a margin of 37 per cent. in favour of Victoria. By 1901 New South Wales had obtained a lead of 13 per cent., owing chiefly to its superior power of attracting emigrants.

(*b*) *Employment.* The Free Trade State has gained upon its neighbour in factory employments, and is now equal in this respect, but Victoria has largely substituted female labour for male labour, child labour for adult labour, and outworkers for inworkers. Moreover, fluctuations of employment have been far less severe in New South Wales. In the crisis years—1891-3—factory employment in Victoria fell off by 27 per cent., in New South Wales by 17 per cent. Recovery to previous highest level was made in 5½ years in Victoria, in 3½ years in New South Wales.

(*c*) *Productivity.* The relative value of buildings, machinery and plant has also changed in favour of New South Wales. In the protected State the manufacturer does not discard obsolete machinery, but asks for higher duties; instead of producing more cheaply, he sells more dearly. The excess figures of total production are most suggestive. We give them below, at intervals of ten years from 1871 :—

EXCESS (VICTORIA).

1871	£3,881,000 =	25.2 per cent.
1881	———	———
1891	———	———
1901	———	———

EXCESS (NEW SOUTH WALES).

1871	———	———
1881	£2,430,000 =	10.7 per cent.
1891	6,420,000 =	21.2 per cent.
1901	8,147,000 =	26.4 per cent.

(*d*) *Wages and Prices.* The mobility of labour as between the two States tends to reduce nominal wages to a common level; but in Victoria, since 1896, wages in certain trades have been artificially raised by legal enactment—a fact which vitiates comparisons. It is, however, shown that in 1901 prices of dutiable commodities were higher in the protected than in the Free Trade State by between 25 per cent. and 30 per cent.; that inland prices were increased by the full, or nearly the full, amount of the duty; and that, consequently, real wages were considerably lower in Victoria than in New South Wales.

(*e*) *Consumption and Income.* The lower purchasing power of the Victorian wage-unit makes itself felt in a lower rate of consumption. In 1901, consumption per head in Victoria amounted to £24 1s.; in New South Wales to £28. Measured in quantities the difference is much greater, owing to the enhancement of prices in the protected State. Not only, too, has the unit of income higher purchasing power in New South Wales, but the average income, again

taking 1901 figures, was greater by 10.8 per cent. If incomes under £200 only are reviewed, the advantage for New South Wales is 15 per cent. With increasing benefits occurring as we descend the wage scale, there is justification for saying that Free Trade is the poor man's policy.

4. A Catalogue of Losses.—Mr. Hirsch has really set himself a too easy task; and the recital becomes almost monotonous. But having proceeded so far we will follow his searching analysis to the end.

The Australian States, being debtor nations, should show a balance of exports over imports in order to meet interest on debt and other charges. In the 10 years ending 1901 New South Wales contributed to these charges to the extent of £2,800,000 per year; while Victorian exports barely equalled her imports, showing that her indebtedness to foreign creditors must have increased.

The greater productivity of capital and labour in New South Wales, alluded to above, partly "arises from the fact that legislative favours had not withdrawn capital and labour from the naturally profitable industries to industries which, naturally unprofitable, would only exist behind the shelter of tariff walls." In Victoria many such industries have been encouraged to prolong an artificial existence—*e.g.*, the manufacture of spirits and of wax vestas, and the production of currants and raisins, in all of which cases the excess price paid by consumers is many times greater than the revenue paid into the public treasury. As with the United States, it is a case of great natural industries—

pastoral, agricultural, and mining—exporting the bulk of their products, being made to carry the burden of Protection by means of the heavy duties which are levied on the mechanical requisites of production. The sugar industry, so often cited as a "working model" of Protection, again furnishes a useful illustration. A protective duty of £6 per ton gives a monopoly to a few sugar-refining concerns; raises the price to over £20 per ton—double the English Free Trade price; prevents the development of the fruit and allied industries; and bleeds the community to the extent of £1,500,000 per annum, less than one-third of which feeds the Exchequer, while the balance enriches the monopolist.

GREAT BRITAIN.

1. The Isolation of England.—Between the years 1842 and 1852 England extricated herself from the "morass and jungle of protective duties, colonial preferences, and navigation restrictions" which embarrassed her commerce, and set her feet firmly upon the bed-rock of Free Trade. Thus, seventy years after Adam Smith, by brilliant deductive reasoning, discovered his great truth, contact with the hard facts of daily life compelled his illogical countrymen to accept the same conclusion.

For twenty years or so the new policy was an acknowledged success. Even the agricultural party was silenced; and the Continent appeared to be following in our footsteps. The testing of England's fidelity to the principles of Free Trade only began with the

Protectionist reaction abroad, dating from 1880 and coinciding with the fall in agricultural prices. Gradually, from this time onwards, the prospect of universal free exchange between the nations faded away, and England became isolated among the Powers. It is impossible to disguise the fact that the European protective system is directed against this country, and a natural spirit of resentment, fed by a nervous apprehension in respect of our national supremacy, fully accounts for the revival of protectionist sentiment among our people.

There are indeed some who carry their misgiving so far as to lament that our fiscal policy has proved to be a failure because, amid the natural expansion of the nations around us, we no longer hold a trade monopoly or even progress at equal rate. We can only reply that it would be just about as foolish to expect that the intellectual and physical superiority of an adult over a child can remain unchallenged when, in the ordinary course of nature, the latter has reached maturity.

It should be sufficient to set our fears at rest if we can prove that our system of free imports enables us to retain a position in international trade far beyond that to which our population, resources and enterprise entitle us.

2. Industrial Evolution.—The lines of the economic development of modern nations are strongly marked. There is a constant progression from one economic state to another, involving altered ratios between agricultural and industrial populations, which is beyond the control of fiscal policy. Hence we are

witnessing the inevitable phenomenon of the passing of the advanced nations through a phase of development which England experienced a generation ago, and of their rapid approach to the same industrial level as herself. Probably all that protective tariffs have done, and, indeed, can do in this matter, is to determine the fate of particular industries, and by this means to prevent that complete differentiation of employment by which the greatest sum of total wealth is obtained.

While freely admitting that it may be worth while to make some economic sacrifice for the sake of securing greater range and variety in life and work, a candid examination of our economic activity discloses the fact that, notwithstanding Protectionist countries have done their utmost to deprive us of our best trades, "we are at present engaged in the production of articles of a higher, not a lower class, on the average, than those of our old staple trades." In good times our industrial organisation can absorb all our population, while in bad times the stress is less severe than in the protected countries. Further, our workers are paid higher nominal wages and much higher real wages than those of any other European country. Our export trade has, doubtless, been modified in character and direction by foreign tariffs, but it has expanded to a much greater extent since 1879 than in the preceding thirty years. We need not concern ourselves too much with the question of the future rate of growth of our foreign trade; for, as Mr. Russell Rea has well pointed out, a continually decreasing share of the energy of

highly developed countries is expended in the production of material goods suitable for foreign exchange. "When a nation has enough in quantity it does not require more things—it requires better things. And these better things are not the material of foreign trade; they are better houses, better cities, better communications, better education, better amusements." When we have a census of production for the leading industrial communities, we shall have a truer means of comparison than is afforded by the statistics at present available. Meanwhile, we know from published income tax returns that England is far ahead of Germany, her chief competitor, in respect of average personal income. In Prussia, taxable incomes (£45 and over), representing 5½ million persons, amount to £600,000,000, while in Britain taxable incomes (£160 and over), representing 5 million persons, amount to £900,000,000.

3. Our Competitive Strength.—One can say, without hesitation, that our policy of free imports has enabled us to turn the situation created by hostile tariffs to the best advantage. That policy has achieved several definite results.

It has helped us to surmount tariff walls. We can buy our raw materials in the cheapest market at bed-rock prices; and in this connection it cannot be too often emphasised that almost every manufactured article is a material entering into some other manufacture. All that the foreigner gains by protection of his finished products he loses in the heavy cost of the elements of production. British manufacturers have

often had occasion to thank foreign tariffs for acting as a spur, indirectly leading to the cheapening and improvement of their goods.

It has enabled us to maintain a supremacy in neutral markets, our exports to which discharge Continental indebtedness in respect of Eastern purchases. The Continent, in turn, pays us, and we receive double profit.

It makes England the most advantageous area for the establishment of new industries. Foreign firms find it to their profit to transfer their works, and produce, *for export,* under English conditions.

It has given us the lead in the shipping trade and in numerous international services, which are the outcome of our position as the clearing-house of the world. Shipping, including shipbuilding, employs more labour—and that, for the most part, highly skilled and well paid—than any other British industry.

4. The Outlook.—What are the prospects of the Neo-Protectionist movement in England? It is brave talk to advocate a reversal of a fiscal system, but the most sanguine may well shrink from the actual difficulties of the task. Bismarck described the general development of the existing Protectionist system in Germany as a "Herculean labour." What words, then, shall describe the work of overthrowing, and reconstructing on a different basis, the complete fabric of British commercial policy? It is certain that it could only be accomplished in response to an unequivocal national mandate. And as no system of Protection has yet been devised that does not sacrifice

the welfare of the many to the interests of the few—that does not take away with one hand what it distributes with the other—it is hard to think that such a mandate will be forthcoming from the English people, once the detailed scheme is laid before them and its cost appreciated.

II.—FISCAL

1. The Appeal to Reason.—It is not difficult, says Professor Bastable, to find authority for the doctrine "that the policy of Protection is, by its very nature, opposed to effective taxation for revenue purposes." For example, Adam Smith regards "taxes imposed with a view to prevent or even diminish importation as destructive of the revenue of the customs as of the freedom of trade." John Stuart Mill describes protective duties as an "eminently wasteful mode of raising a revenue"; M. Gide pronounces them "extraordinarily harassing and costly"; whilst Roscher and Graziani each insist on the incompatibility of the two aims of Protection and revenue. Adding to the testimony of the theorists that of a practical statesman, Professor Bastable quotes the declaration of the present French Minister of Finance that "the State, by the establishment of protective duties, agrees to a surrender of taxation in favour of certain private persons, whom it clothes with power to levy tribute on the mass of the population."

The two ideas, though antagonistic in principle, are, in practice, often closely interwoven. The revenue duty incidentally affords some protection, and the restrictive duty may yield its quota to the national Exchequer; but though the line of demarcation is generally in-

distinct, a careful scrutiny of a long list of dutiable articles will always reveal a few items which are responsible for the bulk of the revenue and a majority which are barren of yield. This conclusion, easily verifiable by fiscal experience, is quite at variance with the notion that revenue can be substantially increased by "broadening the basis" of taxation.

The proposal to obtain both revenue and protective results from import duties gains most plausibility with reference to those industries in which the home and the foreign supply are brisk competitors. Taking the case of extractive industries, the revenue obtained from a protective duty depends: (1) on the effectiveness of the home production, and (2) on the rate of duty. "The point of maximum return for revenue is kept down by the efforts of home producers, who extend their operations with rising duties," and whose increasing profits bring no corresponding gain to the Exchequer. This group of industries—comprising food and raw materials—is for obvious reasons not generally considered a fit subject for heavy taxation. The duties can only be maintained in face of powerful special interests who will press the protective motive; and, by reason of fluctuating values, they are very uncertain in their yield.

In the case of manufacturing industries, the operation of the law of increasing returns affords considerable scope for the extension of home production, and, speaking generally, duties will yield a dwindling revenue. There are exceptions. Home competition may not be effective, and the demand for foreign articles

may remain strong. Especially does this apply to (1) articles not highly manufactured and capable of further elaboration, and (2) certain kinds of luxuries. In the first case, a heavy tax on production may bring in some revenue; in the other, limitations of home producing power may exclude the protective element from the tax. The special instability in yield of protective taxation is due to the fact that, while all the causes which disturb revenue tariffs operate, it is also affected by (1) changes in the position and competitive power of the national industry, and (2) alterations in the protective system itself. Conversely, adjustment of revenue is easier when the protective factor is absent; and stability can only be guaranteed by the possession of some large duties of a purely revenue character.

2. The Experience of the Nations.—Theoretical analysis is confirmed by the historical evidence. In Great Britain, the successful administrations of Walpole and the younger Pitt were marked by the removal of fiscal restrictions. The revolution, accomplished in the middle of the nineteenth century, which gradually eliminated the protective element from our fiscal system, brought into clear view the really productive subjects, and, in consequence, has made all subsequent adjustments a comparatively easy task. The unprofitableness of a system of numerous small protective duties and the elasticity of a revenue tariff are both illustrated in the fact that between 1815 and the close of the century the customs revenue only varied between £19,000,000 and £24,000,000. The

yield of protective duties fails either because the article taxed is not one in large use, or because the tax diverts consumption into another channel. Such, at least, was the conclusion of the Import Duties Committee of 1840.

Our reformed finances have successfully stood the test of two great wars, and there is no reason to fear that the demands of the future, whether created by national emergency or the requirements of social reform, cannot be met under our existing system of finance, to which customs duties contribute a share which steadily increases with the expansion of our commerce.

The testimony from France is equally valuable. A table of customs yields, from 1870 onwards, shows how the Exchequer increases under the liberal *régime* of the seventies have, since the Protectionist revival, been checked or replaced by actual decreases. A review of the present tariff discloses a few important revenue duties and a great many insignificant items. Another noticeable feature is the extremely variable yield from the protective corn duty ; nor can it be said that the "double aim" is effectually secured by taxes on raw materials such as corn and timber which embarrass industry and yield small returns.

The same features can be traced in the German tariff. The serviceable financial duties are few in number; whilst numerous industrial duties are unimportant in their yield. The substantial returns of the corn duties are purchased at great cost to the people. The population increases faster than the home pro-

duction, so that, while the great landowners enjoy protection, the Exchequer continues to draw a large though uncertain revenue from the agrarian duties. The inelasticity of a protective tariff could not be demonstrated more clearly than in the confessed failure of the latest customs revision in Germany. The extra turn of the screw has resulted in increased cost of living, in dearer raw materials, in retaliation by other countries and loss of foreign markets. The volume of business in the affected industries has shrunk, and the extra duties have brought no extra revenue. The balancing of the budget is giving the fiscal authorities much anxious thought, and the solution of the problem will be awaited with much interest in this country.

We are entitled then to ask whether it is by mere coincidence that, while Great Britain is able to devote large surpluses to debt repayment—49 millions in four years—Protectionist countries like Germany and the United States are faced with deficits of large amounts ; and whether, alike with a view to raising adequate revenue and imposing the minimum burden on the community, adherence to Free Trade is not the most effective method of obtaining good results.

The Premier made an interesting reference to this point in his speech at the Cobden Club banquet on August 4th, which we will quote at length :—

"The collapse last autumn of the whole fabric of credit and, as a consequence, to a large degree, of the whole mechanism of production in the United States of America was certain to produce serious and deep-seated consequences. Free Trade countries, no more than

Protectionist countries, can escape from these periodical slackenings in the wealth-making power of the world. We may have here in England to relax the rate at which we have been reducing our debt. We may have, instead of remitting, to impose taxation. But I see nothing—and I say it deliberately and after a very careful survey of the whole field—I see nothing which leads me for one moment to doubt that our Free Trade finance is capable of bearing the strain of any reasonable programme of social reform. We have, at any rate, this satisfaction, that whatever taxation we are compelled to resort to will yield its whole proceeds to the national Exchequer, and that no part of it will be retained or diverted to serve the particular purposes of special and privileged interests."

3. A Substitute for Import Duties.—The Hon. John Bigelow would abolish the Customs House, and proposes an alternative method to the "tax on imports" for defraying the expenses of government. His argument is as follows:

"The land, water and sun, with its atmosphere, are the capital of the whole nation," and the State has no right to part, without compensation, with the exclusive usufruct of any portion of this capital to individuals or corporations. As a co-partner it is entitled to demand a share in the earnings of the joint capital, which, in the case of land, may take the form of a fair rental. A similar participation should be claimed whenever the State grants charters conferring exclusive lucrative privileges "which to an appreciable extent limit or extinguish any of the

common law rights of the public" ; but in these cases a more appropriate form for the State share would be a percentage of profits. The author proceeds to illustrate his meaning thus :

There are still 60,000,000 acres of public lands in the United States which, in view of the growth of population and facilities for transportation, are increasing in market value day by day. If instead, as at present, of parting with the fee simple of these at a nominal price, "scarcely enough to pay for the stationery used in its transference," the State were to impose a trifling rent-charge increasing with its productive value, a magnificent source of revenue would be tapped, expanding naturally with the needs of the community.

Or, again, there are enormous mineral resources over which the State has not asserted the right of eminent domain. With royalties reserved on "gold, silver, copper, iron, lead, petroleum, lime, cement, borax and numberless other mining properties," the Government would, in all probability, have enough and to spare for all reasonable requirements.

With regard to the State interest in patents and copyrights Mr. Bigelow says : "Had our Government taken the most trifling compensation for its services in guaranteeing and protecting its patents even for the last twenty years, the Treasury would have had such a surplus that it would have been constrained to give it back to the States as it did under the administration of President Jackson." Instead, there is a 50 per cent. tariff, and withal a deficit of 60 million dollars!

Why should not the commercial and marine interests of the country gladly exchange the oppressive tariff, which burdens commerce and suppresses shipping, for a suitable payment in recognition of the Federal Government's control of lighthouses, navigable rivers, harbours, &c.? It is a natural and feasible question.

The advantages claimed for the "substitute" are:

(1) It would secure to the State a fair share in the property which it helps to create and which its organisation protects.

(2) It would diminish the corrupt purchase and sale of privileges.

(3) It would inspire confidence in the administration of public affairs.

(4) It would give the people a friendly interest in the success of industrial corporations, and put an end to litigious and factious opposition.

(5) It would purify both the Legislature and the Bourse.

(6) It would make collection of revenue almost automatic and far less costly than under the present system.

(7) It would reconcile the warring interests of labour and capital.

Mr. Bigelow reminds us briefly of the evils which the tariff has wrought: how the "American consumer is obliged to pay nearly half as much again for what his own country produces in order to protect and benefit the trade of those who handle only one thirty-fifth of

its amount"; how Protection has created an aristocracy of wealth by endowing a limited class of industrialists at the expense of all outside that class; how "the vast extent and power of modern combinations of capital have brought upon us in these later years problems portentous in their possibilities, and threatening not only our social and political welfare, but even our personal freedom, if they are not boldly met and wisely solved."

The substitute would operate gradually, the tariff being reduced "only so far and so fast as the corporations yielded an equivalent or sufficient revenue." In this way there should be no serious disturbance of values or infringement of private rights; and the conversion would be "scarcely more noticed in financial circles than the changes of the seasons."

As working examples of the proposed substitute for tariff on imports, the French railways and the Metropolitan railway of Paris are cited; but surely the principle involved is the same which underlies "taxation of land values"—a method of uniting fiscal with economic reform which has been successfully adopted by several of the Australian States.

4. Wanted—a Constructive Policy.—The American and Australian delegates to the Free Trade Congress signed a joint memorandum on this aspect of the fiscal question. They expressed the view that "Free Trade is a policy far transcending mere Customs House policy, and that it logically involves equal freedom to produce as well as freedom to exchange"; that the complete success of the Free Trade cause

can only be assured "by associating with it measures which will abolish monopoly in land and transportation, as well as monopoly in trade"; and that the municipal or national taxation of land "will promote freer access to the land, and lessen the need for having recourse to the Customs House for the provision of revenue."

The delegates refrained from introducing their views to the conference, believing this phase of the subject to be outside its scope as arranged; but they suggested that a full discussion of this wider concept of Free Trade should be invited on the occasion of the next congress.

Mr. J. A. Hobson's warning struck a similar note. Free Traders, he said, are apt to adopt a purely defensive attitude, as though freedom from protective tariffs secured total immunity from industrial ills. Two misconceptions are rife amongst us: (1) that Free Trade, in its broader aspect, can be realised or maintained by the negative policy of *laisser faire;* (2) that the tariff is the mother of trusts, whereas it would be more correct to describe it as the foster-mother, there being "other strong origins and supports" of the combination movement.

The modern issue is not between "competition" and "combination," but between private combinations and public combinations. Economic laws determine the slowly evolving forms of industry, but society determines the question of control.

Again, if the defenders of the Free Trade citadel are to resist successfully the attacks of the protec-

tionist movement, "they must carefully contrive a system of finance which would be a true alternative to the protective policy."

Still more earnestly Mr. Louis Post urges Free Traders to "make an appeal which touches the heart and the sense of justice." Only when Free Traders forsake the academic platform of abstract theorising and come down into the midst of the people, moved by a passion of brotherhood and goodwill, will the masses rally round the old banner and renew their faith in the old watchwords.

III.—POLITICAL

1. The Insincerity of Protection.—The avowed *raison d'être* of Protection is to equalise the difference between the cost of production at home and abroad. In the first stages of national development, when "infant industries" are struggling for existence, the plea has some reason and weight; but it has a forced, unnatural sound as applied to the case of the advanced industrial communities of modern times. Yet so barren is the logic of the Protectionist position that its supporters must rely on this worn-out formula to commend their system to the judgment of the world.

We may see where the argument leads by reference to the United States. In adopting the tariff as the leading plank in their platform, at every Convention of recent years, the Republican party has solemnly reaffirmed its adhesion to the classic principle. If such a declaration means anything at all, it means that the need for protecting American industries against foreign competition is as urgent as it was in the early years of the Republic; it even means, judging from the present tariff rates, that the inferiority of American industries to those of other countries is increasing rather than diminishing. But such an inference is manifestly absurd. Mr. Franklin Pierce tells us that the United States "could profitably undersell the world in nearly

all manufactured products if raw materials were free." That is, the handicap is self-imposed, and the high protective tariff on manufactured goods is merely a clumsy method of compensation for the artificially enhanced cost of production—a state of affairs which, in the case of a country so richly endowed by nature as the United States, is wholly without justification. "In 1906," Mr. Pierce reminds us, "one hundred and eighteen years after the time when Hamilton . . . believed that our iron industries needed no protection, the average *ad valorem* rate of duty upon all dutiable imports of iron was 49.46 per cent." With the most extensive iron fields in the world, and a furnace output more than double that of British foundries, the United States yet levies a duty of four dollars a ton upon imported pig-iron.

The conditions of production in other staple industries, such as cotton and wool, are equally favourable, so that we can only regard the demand for protective duties ranging from 50 per cent. upwards as a baseless and dishonest pretence.

The Conservative party in Canada proposed in 1878 that the tariff, which hitherto had been a revenue one, should be strengthened for a few years to enable the nascent manufactures to establish themselves. The "few years" have come and gone, and the tariff has not yet been replaced on a revenue basis. On the contrary, the demand for protection has become more insistent: the Manufacturers' Association is determined that all foreign manufactures, including those of the United Kingdom, must be effectually excluded, and that

their own requirements shall not be sacrificed to the chimerical ideal of Imperial Preference. We are therefore faced with a simple dilemma. If there is virtue in a tariff, there should be no need, after long years of trial, for the present outcry; if there is none, it should be discarded as an experiment which has failed. M. de Molinari puts forward a solution which may fit the case of the Canadian woollen manufacturers. Assuming that the "selected" industry is adapted to the natural conditions of the country, he explains the extraordinary prolongation of the "infant" phase on the ground that, being secured against the pressure of outside competition, the industry may have failed to make the "efforts and sacrifices" which are essential to a virile and independent growth. But in every case the plea has ceased to carry conviction. The "infant industries" to-day are, for the most part, huge industrial combinations "overshadowing the world"; they have grown faster than the nations, and their power is a menace to the national welfare; "yet they demand the tariff as a necessity of existence as insistently as ever they did." As a matter of fact, modern tariffs have not development as their object, but aggression.

In another sense, the Protectionist argument lacks sincerity. The tariff is maintained by direct appeals to passion and prejudice; it trades on patriotic sentiment. "In God's name, let Americans look after America," shouts the demagogue; and the people cry, "Amen!" —apparently never dreaming that they are being humbugged, and that the national flag is waving over a sordid campaign of plunder and pillage. So the tariff

becomes a cardinal article of faith; and, by virtue of industrial monopoly, prices are maintained at the rates ruling fifty years ago, despite the enormous lowering of costs which industrial changes have made the rightful heritage of the people.

Protection is *not* a national policy: rather, it is destructive of national ideals. It sanctions class enrichment by legislation; it violates the principle of equality before the law; it distributes profits—for the most part unearned—to a favoured handful of monopolists to whom the body of citizens pay forced tribute. In America even the manufacturer has reaped little benefit from Protection: he gets his trade profit with difficulty, and nothing more; for he is at the mercy of the great syndicates which control his raw materials, and is compelled to increase his charges in self-defence. The burden is passed on from one to another till, finally, it rests on the shoulders of the housewife buying trust-made articles in the market-place. A percentage of the millions wrung from the people is returned to them in various forms of charity; and yet another fraction is spent in keeping alive, by press and platform propaganda, the precious delusion that a beneficent tariff must be maintained in order to save the labouring people from falling into pauperism; but the fundamental right of justice is denied. How very truly Tolstoi has said: "We will do almost anything for the poor man—anything but get off his back."

2. The Deterioration of Political Morality.—How Protection taints the public life of a community may best be described in Mr. Franklin Pierce's own words:

"Our protective policy, although unwise, was undoubtedly honestly commenced and continued by Congress for the first seventy years of our national life. Now it has become not protection but plunder. It has resulted in a close alliance between corrupt politicians and manufacturers to procure favourable legislation by any means. They who make the tariffs in the United States . . . determine what shall be the profits and the trade opportunities of about 262,000 manufacturing establishments. These protected interests have grown strong enough practically to dictate to the Presidential candidate and carry the national elections. We have permitted a force outside of Government to be created that is powerful enough to control Government in spite of the people. The men in control of the trusts have come to regard themselves as privileged persons above and beyond restraint from any source."

Or again:

"Behind every tariff law will be found nothing but private interests, clinging like parasites to the Government, constantly urging their claims, and seeking by discreditable means to interest senators and representatives in the passage of their measures. The tariff problem in the United States to-day, with its resulting trust, has proved the most stupendous instrument of corruption which was ever conceived by the ingenuity of man. Place three or four hundred Republicans or Democrats of approved honesty in Congress, continue them there for a few years under the temptation of such an alliance of public power with private business, and a considerable proportion of their number will

yield to the temptation to make money out of tariff legislation."

These charges are supported by numerous instances of corruption gathered from Presidential and other election records, involving officials of rank and private individuals of the highest standing in the religious and philanthropic worlds. We find members of the Government using official information to accelerate payments from manufacturers who are subsequently rewarded by the bestowal of important contracts or by favourable legislation. The infection has, indeed, spread throughout the commonwealth. Not only do the trusts and railway corporations contribute largely to the funds of either party, hiding the amounts in fictitious entries in their books, but banks and insurance companies do not hesitate to betray fiduciary interests, diverting clients' moneys to campaign uses—the bribing of voters and other improper ends.

Efforts to check these evils have not been very successful. A Bill providing for the publication before an election of the names of contributors, with amounts, to election funds, was introduced into the last Congress, but was defeated; and, at the recent Republican Convention, the proposal was voted down by 9 to 1. The prosecution of "unlawful combinations" under the Sherman Anti-Trust Act has proved altogether ineffectual. The attempt to restrain the trusts by the enforcement of penal laws, by the setting up of administrative tribunals and interstate commerce commissions, while the protective tariff—the efficient cause of the trust—remains, can only end in chagrin and

failure. It remains to be seen whether the Democrats are in earnest in their declared intention to return to a revenue tariff, or whether the "scaling down" of duties will still leave them high enough to achieve the purpose of monopoly.

3. The Citizen and the State.—Protection has killed the "glorious young enthusiasm for the freedom and independence of the individual man" which characterised the American people of a hundred years ago. They were then concerned about principles, and had convictions on the subject of the nature and functions of Government. To-day, public questions are tabooed, and discussions turn round the personalities and private life of wealthy men. The plainer virtues—patient industry, economy, rectitude—are going out of fashion, and a "feverish, speculative, unscrupulous spirit" is sapping the young American manhood. "Just in proportion as organised wealth has seized upon the Government for its own selfish purposes, so have individual character and independence fallen from their former noble estate."

While the tariff brings unearned or speculative gains to the monopolist combination, the latter, in turn, closes the door of opportunity to millions, and so discourages initiative, thrift, and perseverance in the common man. Since increasing industry and honest effort can only secure sufficient goods, at present prices, to keep body and soul together, while the fruits of monopoly make a few men fabulously wealthy; since the tariff-made trust has displaced thousands of independent owners and suppressed small industries,

while the business of the country is controlled by a few hundred corporations—what could be more natural than that the citizens should come to regard the State as the fount of prosperity, and legislation as the source of wealth?

To quote Mr. Franklin Pierce again: "The greatest curse which Protection has brought upon the country is its constant teaching that all evils are political in nature, that prosperity is created by statute law, and that all social miseries may be destroyed by statute. We have been teaching the people of our country for forty years that a law of Congress is a sovereign specific for every evil, instead of teaching them the truth that prosperity depends upon the personal character and industry of the people and upon the exercise of individual virtue and vigour."

A particular source of political corruption is the misregulation and misappropriation of public finances. Protective customs tariffs produce unstable budgets, and the disposal of the alternating and often enormous surpluses gives opportunity for schemes of private plunder to forestall a demand for reduction of duties. This is how the Harrison Administration got rid of the surplus which had accumulated during Mr. Cleveland's term of office, expiring in March, 1889. They passed the McKinley Bill impairing sources of revenue by means of prohibitory duties; they increased the ordinary expenditure by $50,000,000; they diverted $150,000,000 to the purchase of silver; they passed the Dependent Pensions Bill; they multiplied offices, approved claims, sanctioned private legislation, without

discrimination. So that when Mr. Cleveland returned to office in 1893 the Treasury was bankrupt, and a severe financial crisis ensued.

Mr. Pierce maintains that if the national expenses were defrayed by an "overt, irritating tax," such reckless finance would not pass uncriticised. "Direct taxation is almost necessary to the existence of free government. Vigilance on the part of the people is practically impossible without such taxation. Take the people's money from them without their knowing it, and, by and by, you can take their liberties."

4. The Perversion of Government.—Legislation is almost reduced to a farce. Congress does not legislate on tariff matters: it simply affirms or ratifies the decrees of the beneficiaries of the tariff; while the Senate is a "secret and irresponsible club," consisting of persons, allied with the great monopolies, who vote for tariff bills which protect their interests and mulct the whole American people.

The volume of legislation is enormous, and much of it is rash and ill-considered. In the three months December, 1905, to February, 1906, 15,000 Bills and Resolutions on all conceivable subjects were introduced and referred to committee. On a single day in January, 1905, 459 private bills were passed in the House of Representatives in eighteen minutes. The Dingley Tariff Bill, filling 163 pages and imposing duties on more than 4,000 separate articles, was passed within a fortnight of its introduction and transmitted to the Senate, only 22 pages having been discussed. "The schedules of the tariff are so indefinite that 300,000

cases have been brought before the Boards of Appraisers for classification."

Legislation of this description obstructs the natural channels of trade, gives an artificial character to business, and is a prolific source of panics. In the effort to deal with the abuses to which the system of protective legislation has given rise, the functions of the Executive have been strained beyond constitutional limits. The Presidential control over legislation and the usurpation of the privileges of Congress are increasing at an alarming rate. Administrative tribunals and commissions divide up executive powers which they exercise wthout responsibility or check. "The people of England are justly proud of the fact that their lega rights to life, liberty, and property must ever be determined in common law courts, and that administrative tribunals have little power in their jurisprudence. But in the United States both Federal and State commissions exercise considerable power over the property and liberty of the citizen, and generally with no redress in the courts."

And all this valiant display of executive power is so much wasted effort—a futile beating against the bars of a prison-house; for the ultimate rulers of the Republic—the ultimate controllers of the destinies of the American people—are a few men who hold no office whatever, but who, possessing the land, the minerals, the railways, the manufactories, the franchises of the country, can mine and countermine with secret operations the whole public life of the nation.

5. International Relations.—Protection is out of

harmony with the tendencies of an age which, in other directions, is daily reducing the barriers to human intercourse. We hold international exhibitions with the express object of stimulating international exchange; we hail every development in transport and every improved communication as a fresh bond between the nations — an additional guarantee of stability and peace; yet, with absurd irrelevance, we set up customs barriers which thwart this purpose at every turn.

Even when protective tariffs are not an open menace to the security of the world, their existence creates antagonism and provokes misunderstanding. Thus, when Canada gave preference to the Mother Country, it was in no spirit of defiance to other nations, but purely, as one has said, from a sense of filial duty. Yet Germany took umbrage and increased her duties against Canada, to which the latter was compelled to reply by a surtax.

But, generally speaking, tariffs are the embodiment of "suspicions and superstitions" which "march towards a common point of ill-will, of distrust, and of discord between the nations of the world." We cherish in our hearts—though we disavow with our lips—ancient delusions with regard to the character of commercial dealings. We still imagine that trade is a fixed quantity, or, at least that, in international transactions, one nation's gain is another's loss. We still associate an "adverse" balance with a drain of gold. We still believe that skilful finance consists in making the foreigner pay our taxes, and in forcing our goods upon

him, though we secretly hold that imports are an unmixed calamity.

There is, then, a current of underhandedness, an atmosphere of double-dealing—in fact, a lack of complete honesty—in this business of tariff-framing which militates against goodwill and mutual confidence, and, in the opinion of many, makes a mockery of peace conferences so long as the nations refuse to pledge the sincerity of their motives by economic disarmament—the inevitable forerunner of military disarmament. As an approach towards this goal, Baron von Kübeck proposes a commercial federation of Europe to be arrived at by way of a customs union between Germany, Austria, and Italy, in which the other civilised countries would be obliged, sooner or later, by stress of circumstances, to join.

Before such a consummation is reached much must happen. We must drop the metaphors of war in discussing matters of trade. We must understand that the multiplication of exchanges is the increase of plenty; that the opening of markets enriches both buyer and seller; and that an increase in the wealth and purchasing power of one nation is a contribution to the general prosperity of the world. When the nations subscribe heartily to these beliefs, the abolition of all tariffs will be within sight.

Despite delays and reactions, events are surely marching towards the realisation of "peace and goodwill" among the nations. Europe may be bristling with arms, but the "guns remain dumb" in face of the growing intelligence of mankind. Similarly, all

the forces of civilisation are fighting against tariff obstructions. "Liberty of speech and liberty of religion are everywhere granted by civilised nations; that liberty of trade is anywhere denied only shows that self-interest and privilege fight to their last ditch to maintain their power of spoliation."

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